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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

July 1, 1994

Thomas A. Pajda
Attorney

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, Room 222
Washington, D.C. 20005

Dear Mr. Caton:

Re: Reply Comments of Southwestern Bell Telephone
Company, Price Cap Performance Review for Local
Exchange Carriers, CC Docket No. 94-1

Attached is a copy of page 45 of SWBT's Reply Comments in the above-referenced proceeding. SWBT understands that the paper copy of this page of its Reply Comments may not have been included with the additional copies of SWBT's filing due to a photocopying error, when SWBT submitted its Reply Comments on June 29, 1993. While the original copy of the Reply Comments and the diskette copies should be complete, SWBT is sending a copy of this page to all parties of record on its Service List as of the reply comment filing date.

Respectfully submitted,

Attachment

One Bell Center
Room 3526
St. Louis, Missouri 63101

Phone 314 235-2518

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shows why no party has introduced any credible evidence that the LEC productivity offset should be increased.

The Christensen Study is based on a proven and accepted approach to estimating telecommunications productivity, employing a methodology initially developed by Christensen Associates in a 1981 study of the Bell System, and subsequently used and accepted by the public utility commissions in North Dakota, Georgia, Illinois, Ohio, and Indiana.⁹⁸ The TFP approach used in the Christensen Study represents the prevailing standard for productivity measurement. For example, the Bureau of Labor Statistics uses the Tornqvist index in their industry, national and international multifactor productivity studies. Furthermore, as NERA shows mathematically, TFP is the appropriate foundation for a productivity offset. NERA states that "given the structure of the annual price cap adjustment formula, only total factor productivity can be used to set the productivity offset."⁹⁹

Significantly, several non-LEC parties also suggest that the Commission base a revised productivity offset on the standard TFP index methodology. For example, Ad Hoc states: "normally, the productivity concept is based on total factor productivity (TFP) which incorporates changes in all inputs (capital, labor and materials) simultaneously"¹⁰⁰ and considers the TFP index methodology to be "the prevailing economic approach to measurement of Total Factor Productivity which has been developed by a wide variety of economists."¹⁰¹ ICA also urges the Commission to give "substantially more weight to more recent data and to

⁹⁸ Id., p. ii.

⁹⁹ USTA Comments, Attachment 5, NERA, p. 18.

¹⁰⁰ Ad Hoc, p. 21, fn. 19.

¹⁰¹ ETI Paper, p. 65.

CERTIFICATE OF SERVICE

I, Liz Jensen, hereby certify that the foregoing
Reply Comments of Southwestern Bell Telephone Company in
Docket 94-1, have been served this 5th day of July, 1994 to
the Parties of Record.

Liz Jensen
Liz Jensen

July 5, 1994

International Transcription Svc., Inc.
R. 246, 1919 M Street, N.W.
Washington, D.C. 20554

Gregory Vogt, Chief
Tariff Division, Room 518
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Ad Hoc Telecommunications Users
Committee
James S. Blaszk
Francis E. Fletcher, Jr.
Gardner, Carton & Douglas
1301 K Street, N.W.
Suite 900 - East Tower
Washington, D.C. 20005

Ad Hoc Telecommunications Users
Committee
Economic Consultants:
Dr. Lee L. Selwyn
Dr. David J. Roddy
Scott C. Lundquist
Sonia N. Jorge
Economica and Technology, Inc.
One Washington Mall
Boston, Massachusetts 02018

John C. Smith
General Counsel
Aeronautical Radio, Inc.
2551 Riva Road
Annapolis, MD 21401

Carol C. Henderson
Executive Director, Washington Office
American Library Association
110 Maryland Avenue, N.E.
Washington, D.C. 20002-5675

Michael S. Pabian
Attorney for Ameritech
2000 West Ameritech Center
Drive
Room 4H76
Hoffman Estates, Illinois 60196-1025

W. Theodore Pierson, Jr.
Richard J. Metzger
Douglas J. Minster
Attorneys for
Assoc. for Local Telecomm. Services
Pierson & Tuttle
1200 19th Street, N.W., Suite 607
Washington, D.C. 20036

Heather Burnett Gold
President
Association for Local
Telecommunications Services
1200 19th Street, N.W.
Suite 607
Washington, D.C. 20036

W. Theodore Pierson, Jr.
Richard J. Metzger
Douglas J. Minster
Attys. for Assoc. for Local
Telecommunications Services
PIERSON & TUTTLE
1200 19th Street, N.W.
Suite 607
Washington, D.C. 20036

Marc E. Manly
Attorney for AT&T Corp.
1722 Eye Street, N.W.
Washington, D.C. 20006

Mark C. Rosenblum
Robert J. McKee
Peter H. Jacoby
Albert M. Lewis
Attorneys for AT&T Corp.
Room 2255F2
295 North Maple Avenue
Basking Ridge, New Jersey 07920

Michael E. Glover
Edward D. Shakin
Karen Zacharia
Attorneys for
Bell Atlantic Telephone Companies
1710 H Street, N.W.
8th Floor
Washington, D.C. 20006

Gary M. Epstein
James H. Barker
Counsel for
BellSouth Telecommunications, Inc.
LATHAM & WATKINS
Suite 1300
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2505

M. Robert Sutherland
Richard M. Sbaratta
Counsel for
BellSouth Telecommunications, Inc.
4300 Southern Bell Center
675 West Peachtree St., N.E.
Atlanta, Georgia 30375

Alan J. Gardner
Vice President Regulatory
and Legal Affairs
Jeffrey Sinsheimer
Director of Regulatory Affairs
California Cable Television
Association
4341 Piedmont Avenue
Oakland, California 94611

Frank W. Lloyd
Kecia Boney
MINTZ, LEVIN, COHN, FERRIS,
GLOVSKY AND POPEO, P.C.
California Cable Television
Association
701 Pennsylvania Avenue, N.W.
Suite 900
Washington, D.C. 20004

Terry L. Murray
Murray and Associates
California Cable Television Assoc.
101 California Street
Suite 4225
San Francisco, CA 94111

Thomas E. Taylor
Christopher J. Wilson
Attorneys for Cincinnati Bell
Telephone Company
Frost & Jacobs
2500 PNC Center
201 East Fifth Street
Cincinnati, Ohio 45202

James Gattuso
Beverly McKittrick
Citizens for a Sound
Economy Foundation
1250 H St. NW
Washington, D.C. 20005

Genevieve Morelli
VP and General Counsel
Competitive Telecommunications
Assoc.
1140 Connecticut Ave., N.W.
Suite 220
Washington, D.C. 20036

Allan J. Arlow
President and Chief
Executive Officer
Computer & Communications Industry
Association
666 11th Street, N.W.
Washington, D.C. 20001

Charles A. Zielinski
Rogers & Wells
Attorneys for
Computer & Communications Industry
Association
607 14th Street, N.W.
Washington, D.C. 20005

Henry M. Rivera
Ginsburg, Feldman and Bress,
Chartered
Attorney for The Council of Chief
State School Officers and The
National Assoc. of Secondary
School Principals
1250 Connecticut Avenue, NW
Washington, D.C. 20036

Richard Riccoboni
President and CEO
Eagle Telephonics, Inc.
132 Wilbur Pl.
Bohemia, NY 11716

James E. Keith
President
Ambox Incorporated
6040 Telephone Rd.
Houston, Texas 77087

Barry Gorsun
President
Summa Four, Inc.
25 Sun Dial Avenue
Manchester, NH 03103

Charles W. Trippe
Chairman and CEO
AmPro Corporation
525 John Rodes Blvd.
Melbourne, FL 32934

Joseph A. LaHoud
President
LC Technologies, Inc.
9455 Silver King Ct.
Fairfax, VA 22031

Paul Pandian
President
Axes Technologies, Inc.
3333 Earhart
Carrollton, TX 32230

Fred Van Veen
Vice President
Teradyne, Inc.
321 Harrison Ave.
Boston, MA 02118

James B. Wood
President
Inovonics, Inc.
1304 Sair Avenue
Santa Cruz, CA 95060

Frank Tripi
Vice President
Perception Technology Corp.
40 Shawnut Rd.
Canton, MA 02021

L. Paul Knoerzer
Vice President
OK Champion Corporation
P. O. Box 585
Hammond, IN 46320

John E. Lingo, Jr.
President
Lingo, Inc.
P. O. Box 1237
Camden, NJ 08105

William H. Combs, III
President
Tamaqua Cable Products Corp.
P. O. Box 347
300 Willow Street
Schuylkill Haven, PA 17972

J. R. Panholzer
Vice President
Remarque Mfg. Corp.
110 Field Street
W. Babylon, NY 11704

Al W. Wokas
President
Rhetorex, Inc.
200 E. Hacienda Avenue
Campbell, CA 95008

George Sollman
President and CEO
Centigram Commun. Corp.
91 East Tasman Drive
San Jose, CA 95134

Stephen B. Kaufman
President and CEO
HealthTech Services Corporation
255 Revere Drive, Ste. 101
Northbrook, IL 60062

David L. Deming
President
Senecom Voice Processing Systems
6 Blossomwood Ct.
St. Louis, MO 63033-5202

Lucile M. Moore
Chairman
Intellect, Inc.
1100 Executive Dr.
Intellect, Inc.
Richardson, TX 75081

Tenley A. Carp
Assistant General Counsel
Personal Property Division
Government Services Administration
18th & F Streets, N.W. Room 40002
Washington, D.C. 20405

Emily C. Hewitt
General Counsel
Government Services Administration
18th & F Streets, N.W. Room 40002
Washington, D.C. 20405

Vincent L. Crivella
Associate General Counsel
Personal Property Division
Government Services Administration
18th & F Streets, N.W. Room 40002
Washington, D.C. 20405

Michael J. Ettner
Senior Assistant General Counsel
Personal Property Division
Government Services Administration
18th & F Streets, N.W. Room 40002
Washington, D.C. 20405

Richard McKenna
Attorney
GTE Service Corporation
P.O. Box 152092
Irving, TX 75015-2092

Gail L. Polivy
Attorney
GTE Service Corporation
1850 M Street, N.W.
Suite 1200
Washington, D.C. 20036

Jonathan E. Canis
Swidler & Berlin, Chartered
Counsel for Intermedia Commun-
ications of Florida, Inc.
3000 K Street, N.W.
Suite 300
Washington, D.C. 20007

International Communications Assoc.
Brian R. Moir, Attorney
Moir & Hardman
2000 L Street, N.W.
Suite 512
Washington, D.C. 20036

Robert A. Mazer
Nixon, Hargrave, Devans & Doyle
Counsel for the Lincoln Telephone
and Telegraph Company
One Thomas Circle, N.W., Suite 800
Washington, D.C. 20005

MCI Telecommunications Corporation
Elizabeth Dickerson
Manager, Federal Regulatory
1801 Pennsylvania Avenue, NW
Washington, D.C. 20006

Andrew D. Lipman
Russell M. Blau
Attorneys for MFS Communications
Company, Inc.
SWIDLER & BERLIN, Chartered
3000 K Street, N.W.
Washington, D.C. 20007

Margot Smiley Humphrey
Koteen & Naftalin
Attorneys for
National Rural Telecom Association
1150 Connecticut Avenue, N.W.
Suite 1000
Washington, D.C. 20036

David Cosson
Attorney for
National Telephone Cooperative
Association
2626 Pennsylvania Avenue, N.W.
Washington, D.C. 20037

Edward R. Wholl
Campbell L. Ayling
Edward E. Niehoff
Attorneys for
NYNEX Telephone Companies
120 Bloomingdale Road
White Plains, NY 10605

David C. Bergmann
Yvonne T. Ranft
Associate Consumers' Counsel
Office of the Consumers' Counsel
State of Ohio
77 South High Street/15th Floor
Columbus, Ohio 43266-0550

James P. Tuthill
John W. Bogy
Attorneys for
Pacific Bell and Nevada Bell
140 New Montgomery St., Rm. 1530-A
San Francisco, California 94105

James L. Wurtz
Attorney for Pacific Bell
and Nevada Bell
1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Philip F. McClelland
Assistant Consumer Advocate
Counsel for Irwin A. Popowsky,
Consumer Advocate
Office of Attorney General
Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Michael J. Shortley, III
Attorney for
Rochester Telephone Corporation
180 South Clinton Avenue
Rochester, New York 14646

Sprint Corporation
Jay C. Keithley
Leon M. Kestenbaum
H. Richard Juhnke
Norina T. Moy
1850 M Street, N.W., 11th Floor
Washington, D.C. 20036

W. Richard Morris
Sprint Corporation
P.O. Box 11315
Kansas City, MO 64112

R. Michael Senkowski
Jeffrey S. Linder
Ilene T. Weinreich
Wiley, Rein & Fielding
Attorneys for
Tele-Communications Association
1776 K Street, N.W.
Washington, D.C. 20006

J. Manning Lee
Senior Regulatory Counsel
Teleport Communications Group Inc.
One Teleport Drive
Staten Island, N.Y. 10311

Paul B. Jones
Senior VP - Legal and
Regulatory Affairs
Janis A. Stahlhut
VP - Regulatory Affairs
Time Warner Communications
300 First Stamford Place
Stamford, Connecticut 06902-6732

Susan M. Baldwin
patricia D. Kravtin
Economics and Technology, Inc.
Economic Consultants for Time
Warner Communications
One Washington Mall
Boston, Massachusetts 02108

David R. Poe
Cherie R. Kiser
Attorneys for Time Warner
Communications
LeBoeuf, Lamb, Greene & MacRae
1875 Connecticut Avenue, N.W.
Washington, D.C. 20009-5728

U S WEST Communications Inc.
James T. Hannon
Laurie J. Bennett
Sharon L. Naylor
Suite 700
1020 19th Street, N.W.
Washington, D.C. 20036

Lawrence P. Keller
Cathey, Hutton & Assoc., Inc.
Counsel for USTA
3300 Holcomb Bridge Rd.
Suite 286
Norcross, GA 30092

Mary McDermott
VP and General Counsel
United States Telephone Assoc.
1401 H St., NW
Suite 600
Washington, D.C. 20005

Peter A. Rohrbach
Linda L. Oliver
Attorneys for
WilTel Inc.
Hogan & Hartson
Columbia Square
555 13th Street, N.W.
Washington, D.C. 2004-1109

Organization for the Protection and
Advancement of Small Telephone
Companies
Lisa M. Zaina, General Counsel
21 DuPont Circle, NW
Suite 700
Washington, D.C. 20036

Dr. Jerome R. Ellig
Center for Market Processes
4084 University Dr., Suite 208
Fairfax, VA 22030

Danny E. Adams
Jeffrey S. Linder
Wiley, Rein & Fielding
1776 K Street, N.W.
Washington, D.C. 20006

Anne U. MacClintock
Southern New England Tel. Co.
VP-Regulatory Affairs and
Public Policy
227 Church Street
New Haven, CT 06510